State Employee Benefits Committee
Tuesday, April 17, 2012 at 2:00 p.m.
Tatnall Building, Room 112
Dover, Delaware

The State Employee Benefits Committee met on April 17, 2012, at the Tatnall Building, Room 112, Dover, Delaware. The following Committee members and guests were present:

Ann Visalli, Director, OMB
Brenda Lakeman, Director, OMB, SBO
Faith Rentz, Deputy Director, OMB, SBO
Vicki Ford, OMB, Financial Operations
Dawn Guyer, OMB, Financial Operations
Rebecca Reichardt, OMB, BDPA
Mary Thuresson, OMB, SBO
Leslie Ramsey, OMB, SBO
Dawn Davis, OMB, SBO
Stuart Wohl, Segal
Andrew Kerber, DOJ
Carolyn Berger, Justice, AOC
Valerie Watson, Department of Finance
Jennifer Vaughn, Department of Insurance
Crystal Webb, DHSS
Chip Flowers, State Treasurer
Erika Benner, State Treasurer's Office
Kim Vincent, Pension Office
Yvonne Marshall, PHRST
Monica Gonzales Gillespie, OMB, HRM

Pat Griffin, SEBAC Chair
Judy Anderson, DSEA
Joe Kirk, DSEA
Faith Joslyn, Blue Cross Blue Shield DE
Vonda Benson, Blue Cross Blue Shield DE
Julie Caynor, Aetna
Lisa Carmean, City of Milford
Joe Morocco, HMS
Hugh Ferguson, DRSPA
Carrie Schiavo, Delta Dental
Karen Valentine, AFSCME
Sandy Richards, AFSCME
Vincent McCann, AFSCME, R
Jill Rogers, HCC
Karol Powers-Case, DRSPA
Leigh Harrison, Sen. McDowell's Office
Scott Ridge, RBS
William Biordi, RBS

Agenda Items Discussed:

Introductions/Sign In

Director Visalli called the meeting to order at 2:02 p.m. Introductions were given around the room. Those who wanted to make public comments were reminded to sign in.

Approval of Minutes

Director Visalli requested a motion to approve the minutes from the March 12, 2012, SEBC meeting. Controller General Larson made the motion and Ms. Vaughn seconded the motion. Upon unanimous voice vote the minutes were approved.

Directors Report – Brenda Lakeman

Open Enrollment is May 7 through May 23. Postcards have been sent out to all active employees and retirees. Next week, packets will be sent out and will include updates, health fair details, reminder about coordination of benefits for both spousal and adult dependents. Posters will be sent to agencies and schools.

Health Fund Financials – Vicki Ford (handout)

It was reported that the fund balance on the Fund and Equity report as of February 28, 2012 was $51.3 million (M). This is more than $2M over the ending balance for January. The increase is mostly due to the receipt of a Medicare Part D Subsidy payment. There were no comments or questions.

Minnesota Life 2012 Renewal and Review – Brenda Lakeman

Group Universal Life (GUL) insurance coverage through Minnesota Life allows employees to purchase 1-6 times their annual base salary, up to a maximum of $350,000.

- Within the first 90 days of hire, employees can purchase 1-3 times their base salary up to $200,000 without Evidence of Insurability (EOI). In order to qualify for 4-6 times annual base salary up to $350,000, the employee must show EOI.

- Accidental Death & Dismemberment (AD&D) benefit matches GUL face amount for employees up to age 70.

- Premium Waiver for disabled employees after 9 months of total disability to age 65 or until no longer disabled.

- Dependent (Spouse and/or Child) Term Life Insurance is available for a spouse at either $10,000 or $20,000. The spousal $20,000 option was added in 2011. The Child Option is available at $10,000 to children up to 19 and from 19-24, if a full time student. One rate payment covers all eligible children in the family.

- Coverage is portable for terminated/retired employees at 50% of coverage in force when terminated/retired. This percentage dropped from 100% to 50% in July 2009.

The current GUL & AD&D rates have been in place since January of 2008.

The total participants as of December 31, 2011 are 16,777. This equates to 53% of the total eligible population. The most popular level of coverage at 42% is three times annual base salary. Of those enrolled, 36% cover their spouses and 33% cover their child(ren). The cash value of contributions is $3.1 million. The cash value contributing is 10%, double what most of Minnesota Life's client groups contribute.

The total number of participants who have ported their life insurance coverage as of December 31, 2012 is 3,832. Of that number, 2,597 participants ported 100% of active level of coverage. The remaining number, 1,235, terminated or retired on or after July 1, 2009 and were able to port at 50% of active level of coverage. Of those enrolled in the ported group, 35% cover their spouses and 12.6% cover their child(ren). The cash value of contributions is $3.5 million. The cash value contributing is 9%.

An analysis of loss ratios over the last 48 months was recently conducted. Active employee GUL experience remains stable with loss ratios relatively constant. The ported group of terminated and retired participants continues to experience high loss ratios, but the claim experience in recent years has been better than prior years. Ported group continues to grow at a higher rate than the active plan; however, the growth has slowed.

Based on most recent 48 months of experience, Minnesota Life has determined that when evaluated separately, the active rates could be reduced by 36.1% and the ported rates should increase by 71.6%. However; since we are continuing with blended enrollment, the proposed rate reduction is 6.5%. Charts depicting the current and proposed rates by age band were shown. No changes are proposed in the rates for spousal and dependent coverage.

Proposed plan enhancements include:

- Amend the definition of dependent child to provide coverage from birth to age 26 and to mirror the definition as provided in the State Group Health Program Eligibility and Enrollment rules. Minnesota Life estimates child life claims may increase by 10%. The child(ren) experience is evaluated with the spouse experience and expanding the child definition to age 26 has little impact on the dependent plan as a whole.

- Offer a one-time special open enrollment period to current employees. Enrollment in the GUL program has declined since 2006. In 2006, 13.11% of those eligible were enrolled. Enrollment reached its lowest in 2009 at 4.16%. The 2011 plan year ended with enrollment at 8.4%. The proposed enrollment period would allow current employees to enrollee and current participants to increase their coverage level to up to 3 times base salary or $200,000, without a doctor's note. (EOI)

- Minnesota Life provides Legacy Planning Services. Their website provides information on how to plan and pay for a funeral, prepare an estate plan and work through end of life issues.

Waiver of Premium is available for any disabled employee participating in the life insurance plan. After a 9 month* elimination period, the State pays employee life insurance premium up to age 65 or until the employee is no longer disabled, whichever occurs first. During approved disability, coverage is maintained at 100%. AD&D terminates upon commencement of waiver of premium and Dependent life may be continued by converting to individual policy.

*Recommend reducing the current 9 month elimination period to 6 months to comply with Delaware Code.

Effective October 2002, the State became the fiduciary for disabled participants and entered into a Premium Deposit Account (PDA) with Minnesota Life. The starting balance of the PDA was $507,813. All withdrawals from the PDA are applied toward premium payments for disabled participants.

Currently, there are 287 disabled participants that are covered under this benefit. Premiums and claims for this group are included when calculating the active employee loss ratio. Minnesota Life projects the PDA to be depleted at the end of 2013. The balance at the end of 2011 was $234,812.21. In order to maintain waiver of premium benefits to those disabled on or before December 31, 2012, with no change to premium rates for the active population, Minnesota Life proposes that we create a closed class of this group. Premium payments would continue to be made from the PDA until depleted. Once depleted, no premium payments would be paid. Coverage would continue at 100% until 65, or end of disability.

Additionally, there are three options for addressing participants who are disabled on or after January 1, 2013:

- Option #1 - Allow disabled insureds to continue coverage without making premium payments. Claims will be supported by actives premiums. Minnesota Life estimates that in four years the GUL rates would need to increase by 1% to account for the absence of paid premiums.

- Option #2 - Allow disabled insureds to continue coverage on a premium paying basis. This would be similar to the port provision for retired and terminated employees. The SEBC would need to determine whether ported coverage would be at 50% or 100% of the active coverage. Claims experience will continue to be supported by the active population.

- Option #3 - Add an insured Waiver of Premium provision to the GUL program at 50% or 100% coverage. Disabled insureds will continue coverage with premium payments until age 65 or until the participant is no longer disabled, whichever occurs first. Minnesota Life would establish and maintain reserves in a separate account for those disabled January 1, 2013 and after. To add an insured Waiver of Premium option with no change in current rates, the disabled insureds coverage would decrease to 50% of coverage. For coverage to remain at 100% there would be an increase of 7.8% to current rates and the increase would apply to all plan participants.

In preparation for the GUL Renewal Proposal Effective January 1, 2013, the items listed below are summary action items:

- Rate reduction of 6.5% for three year period through 2015
- Plan enhancements to include:
  - Extension of dependent children coverage to age 26
  - Open Enrollment for all active employees (except those previously denied coverage) in fall of 2012 for coverage effective January 1, 2013
  - Legacy planning services
- Premium Waiver Coverage for Disability
  - Waiting period to be reduced to 6 months
  - Close currently covered population effective December 31, 2012 and continue to have premiums paid through depletion of PDA and then coverage with no premium payment
  - Continue coverage for those meeting definition of disability as of January 1, 2013 under one of the options outlined below:
    - Option #1 – continuation of coverage at 50% or 100% of policy with no premium payment by disabled participant
    - Option #2 – continuation of coverage at 50% or 100% of policy with premium payment by disabled participant
    - Option #3 – continuation of coverage through an insured Waiver of Premium provision at 50% or 100% with no change to premiums for 50% coverage or 7.8% increase in current rates to entire population for 100% coverage. No premium payment by disabled participant.

SEBAC Comment

Ms. Griffin said that SEBAC supports the changes and enhancements proposed by Minnesota Life. SEBAC agrees that new hires are not focused on life insurance coverage when they are hired. They feel it would be a great benefit to offer an open enrollment to current employees to be able to purchase 1-3 times their base salary up to $200,000 without Evidence of Insurability (EOI).

Public Comment

Director Visalli proposed that the SEBC consider voting to extend the contract with Minnesota Life and suggested discussing further, the options for future disabled population. In reviewing the options, #2 was easily explained in that the disabled participant would be responsible for their premiums if they wished to continue their life insurance while disabled. Options #1 and #3 needed more explanation. Option #1 would allow continuation of coverage at 50% or 100% with no payment by the disabled participant. Premiums would be absorbed by the active population premium revenue. Option #3 includes an insured Waiver of Premium provision and would move participants disabled after January 2013 to a separate population (not supported by either the active or ported populations) and shift their claims liability to Minnesota Life.

Controller General Larson asked for Ms. Lakeman's recommendation. Ms. Lakeman suggested Option #1 to continue insurance at 100%. This option poses only a 1% risk to rates in the short term. Justice Berger asked about the option of raising life insurance coverage at Open Enrollment above the $200,000 maximum and requiring an EOI. Ms. Lakeman pointed out that the benefit of opening the enrollment up to everyone is that people who want to increase or enroll can do so without EOI up to 3 times their base annual salary. Current participants have the option of increasing coverage to $200,000 with EOI at anytime. Additionally, marriage or birth and/or adoption of a child are qualifying events to change levels. Justice Berger asked what happens to those that are disabled and reach age 65. Ms. Ramsey confirmed that when the disabled participant reaches 65, they lose the coverage or they have the option to port and pay the premiums themselves.

Mr. Larson asked what happens with life insurance when someone retires. Retirees can port 50% at the employee discounted rate and pay higher premium for the additional 50% to equal 100%. When an employee terminates or retires, the State notifies Minnesota Life and Minnesota Life begins direct billing the individual for 50% of their active coverage. Justice Berger asked if the portability could be increased to 100% at retirement. Ms. Lakeman replied that the option of returning to 100% portability would result in an increase of 3.5% to the Minnesota Life rates beginning January 1, 2013. Justice Berger asked if the Committee could revisit the Minnesota Life benefit in one year or is the SEBC locked into a three year arrangement with no ability to renegotiate. Ms. Lakeman stated that if the SEBC votes to renew for one year, Minnesota Life will not offer the open enrollment option. In addition, the 6.5% proposed decrease does not include modifying the portability from 50% to 100%.

Justice Berger asked about spreading all risk through the population. For example, use the active premiums to compensate towards the 50% coverage and advantage of group rates that the retired participants are losing. Ms. Lakeman said she could look into this as a separate proposal and explore other options with Minnesota Life.

Treasurer Flowers was not opposed to Option #3 but expressed concern that the SEBC could not objectively consider the renewal offer and proposed enhancements and modifications to the premium waiver coverage without comparative offers and proposals. He asked when the product was last marketed through a request for proposal. Ms. Lakeman explained that the contract was evergreen and stated the initial term was from 2003 – 2006. The rates decreased in 2006 and increased in 2008. The rates have remained the same since 2008. The Statewide Benefits Office conducted a market analysis in 2008 and determined the benefit and rates to be competitive, particularly when factoring the portability feature and the risks the ported population have upon the rates and benefit design for the entire population if the business is moved to another vendor. The plan's performance, rates and plan design are reviewed annually. Treasurer Flowers asked if the SEBC had to take action immediately. It was agreed that decisions were not needed today; however, a decision would be necessary soon with regards to the premium waiver coverage as well as the renewal offer in order to determine if a request for proposal was necessary.

Justice Berger asked if we can go back to Minnesota Life to discuss other options including increasing portability to 100%. Ms. Lakeman and Director Visalli will go back to Minnesota Life with additional questions. Ms. Lakeman stated that it was possible to release a request for proposal in 2013 for a January 1, 2014 contract effective date. Mr. Wohl with Segal explained to the SEBC that life insurance rates was premised upon the historical experience of a group and Minnesota Life has been successful in providing rate and coverage stability for the State's plan. Going to market could result in a vendor buying the business with what appears to be a better rate structure in the short term and later significantly increasing rates to normalize a poor loss ratio. It was decided that the SEBC would wait to vote until the next meeting on May 18, 2012.

There were no attendees signed up for public comment.

Other Business

None.

Director Visalli reminded all that the next SEBC meeting date is Friday, May 18. Watch for an email whether the meeting will be needed.

Director Visalli requested a motion to end the meeting. Controller General Larson made the motion and Ms. Benner seconded the motion. The meeting was adjourned at 3:05 p.m.

Respectfully submitted,

Dawn M. Davis
Secretary, Statewide Benefits Office, OMB